NORTH AMERICAN
ENERGY PARTNERS INC.

North American Energy Partners Inc.
Q2 Conference Call Transcript

Participants:

Rod Ruston – President and CEO
David Blackley – CFO
Joe Lambert – Vice President, Oil Sands Operations
Bernie Robert - Vice President, Corporate Services
Kevin Rowand – Director, Strategic Planning and Investor Relations

Operator:

Good morning ladies and gentlemen. Welcome to North American Energy Partners' Fiscal 2012 Second Quarter earnings call. At this time all participants are in listen-only mode. Following management's prepared remarks, there will be an opportunity for analysts, shareholders and bondholders to ask questions. The media may monitor this call in listen-only mode. They are free to quote any member of management but they are asked not to quote remarks from any other participant without that participant's permission.

I advise participants that this call is also being webcast concurrently on the company's website at nacg.ca.

I will now turn the conference over to Kevin Rowand, Director, Strategic Planning & Investor Relations of North American Energy Partners Inc. Please go ahead, sir.

Kevin Rowand:

Good morning ladies and gentlemen and thank you for joining us. On this morning's call we will discuss our financial results for the three months ended September 30, 2011. All amounts are in Canadian dollars.

Participating on the call are Rod Ruston, President and CEO, David Blackley, CFO, Joe Lambert, Vice President, Oil Sands Operations and Bernie Robert, Vice President, Corporate.

Before I turn the call over to Rod, I would like to remind everyone that statements made during our prepared remarks or in the Q&A portion of the conference call, with reference to management's expectations or our predictions of the future, are forward-looking statements.

All statements made today which are not statements of historical fact are considered to be forward-looking statements. Certain material factors or assumptions were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information.

The business prospects of North American Energy Partners are subject to a number of risks and uncertainties that may cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information.

For more information about these risks, uncertainties and assumptions, please refer to our September 30th, 2011 Management's Discussion and Analysis, which is available on SEDAR and EDGAR.

As previously mentioned, management will not provide financial guidance.

At this time, I will turn the call over to our CEO, Rod Ruston.

Rod Ruston:

Thank you, Kevin and good morning ladies and gentlemen. Thank you for joining us today.

As we expected, our work volumes increased in the second quarter.

In the Heavy Construction and Mining division, we won and began work on several new contracts, including our mining and construction services agreement with Suncor and our heavy construction contract with Syncrude. We also took on increased tailings work for every operating customer in the quarter.

With weather conditions finally stabilizing, our Piling segment also had a busy quarter catching up on its backlog of projects.

And in Pipeline, we got going on two new contracts that have a combined value of $92.5 million.

Combined, this increase in activity helped offset the impact of the shutdown at Canadian Natural where a major fire at their plant earlier in the year resulted in a suspension of work on our long-term overburden removal contract. As a result, our revenues from this one customer were $43 million less this quarter than they were during the same period last year.

Despite this, revenues across our business increased by $11 million year-over-year on a consolidated basis.

Looking at results by segment, our Heavy Construction and Mining division minimized the impact of the Canadian Natural shutdown with increased activity at other customers' sites.

At Suncor, we increased heavy civil and site development work, took on new reclamation and overburden activities and provided specialized tailings and environmental services.

At Syncrude, we started work on the new shear key foundation for the relocation of the Mildred Lake mine train. We also increased tailings and environmental services to this customer.

Over at Shell's sites, we were busy with heavy civil construction work and took on increased tailings-related work, including a high volume of summer muskeg removal related to tailings remediation.

We were also busy at the Blackgold SAGD project during the quarter, where we have been contracted to provide light construction services.

As a result of this new business, second quarter segment revenue for Heavy Construction and Mining was down just $12 million compared to last year, despite the $43 million decline in revenue from Canadian Natural.

Margins, meanwhile, improved to 13.6% of revenue, up from 13.0% last year. This reflects the reduction in lower-margin overburden removal work from Canadian Natural, partially offset by some continued competitive margin pressure in the market relating to equipment oversupply, as well as to the cost impacts of start-up delays on certain projects.

Turning to Piling, this division achieved a $23 million or 85% year-over-year revenue increase for the quarter as weather improved and we were able to make good progress on our backlog of projects. The division also managed to increase its project backlog by 44% to $44 million at the end of the second quarter.

We have seen significant improvement in the industrial construction industry and we have leveraged the growing technical, geographic and sector diversification of our Piling business to secure and profitably execute on a wide variety of projects.

Just to give you a few examples of the diversity of our Piling operations, up in the oil sands we provided services to Suncor's Tailings Reduction Operations and Thin Fine Tailings projects using a combination of drilled, driven and screw piles, the latter of which were manufactured by our newly acquired Cyntech business. We also installed a water tight Secant Pile wall at Syncrude's North Dam Mine tailings project using our Continuous Flight Auger or CFA, a technology we introduced to the Canadian Piling market in 2005, which has provided us a significant competitive advantage.

Over in Saskatchewan, we installed foundations for a Carbon Capture Facility at Estevan. This facility, designed to combat greenhouse gases, is the first of its kind in the world and is a partnership between the Government of Canada and SaskPower. We also executed a large job at Mosaic's K3 potash plant in Saskatchewan using the largest CFA piles ever installed in Canada, being 4 feet or around 1.1 meters in diameter.

Our Drillco operations in Ontario also continued to gain steam where we are executing a growing number of shoring projects for the condo development market.

Results also benefited from the addition of Cyntech's screw pile, pipeline anchor and tank services offerings, which contributed $7.7million to revenue during the quarter.

So as I said, we are seeing strong demand across all of our regions and with our diverse range of piling technologies and significant expertise we have secured a growing volume of work in this division.

Margins also strengthened significantly in the quarter, climbing to 27.5% from 18% last year. This reflects strong performance on a number of large piling projects, as well as the productivity benefits of better weather, which meant production schedules could move ahead uninterrupted.

Looking at Pipeline, this segment posted revenue of $36.5 million, very similar to what we achieved in the same period last year. Revenue in the current period was largely driven by the two new pipeline contracts in BC and Alberta. Profit margin, meanwhile, increased to 8% from 2% last year, reflecting more favourable terms and improved pricing in those contracts.

So overall a positive quarter for us and at this point, I'll now call on David Blackley to review our second quarter consolidated financial results with you in more detail. David.

David Blackley:

Thank you Rod and good morning everyone.

I am going to review consolidated results for the second quarter ended September 30th, 2011 as compared to the second quarter ended September 30th, 2010.

Revenues for the period were $245 million, compared to $235 million in the second quarter of last year. The increase in revenue primarily reflects increased Piling revenue, partially offset by a reduction in Heavy Construction and Mining revenue related to the Canadian Natural work suspension.

Gross margin was 13.6% in the second quarter, compared to 12.4% for the same period last year. Increased work volumes, more favourable contracts and strong results from

Piling contributed to this improvement, however as Rod mentioned, we're continuing to feel some pressure from equipment over-capacity in the oil sands market.

We recorded operating income of $18 million in the second quarter, compared to operating income of $12 million last year, an increase of 50%. This reflects the higher revenues and margins during the current period. G&A expense, meanwhile, decreased by $1million due to the impact of lower share price on our stock-based compensation plan.

Backing out the impact of various non-cash items, net income would have been 22 cents per share for the most recent quarter, compared to 4 cents per share last year.

Turning to capital...total additions for the second quarter amounted to $10 million, including $6 million of sustaining capital and $4 million of growth capital additions.

Looking at liquidity, there were outstanding borrowings of $50 million and issued and undrawn letters of credit of $17 million under the revolving facility leaving us with $43 million of borrowing availability. Start-up on several new construction projects created a temporary strain on our working capital. We expect this to continue through the third quarter and that we will start to see an improvement in the fourth quarter. To support the higher working capital levels we negotiated a temporary $25 million increase to our revolving credit facility until March 31, 2012.

That summarizes our second quarter results. I will now turn the call back to Rod to tell you about our outlook.

Rod Ruston:

Thanks David.

Looking ahead, we anticipate that revenues will strengthen somewhat in the third quarter and continue to ramp up in the fourth quarter.

In the Heavy Construction and Mining segment, demand is escalating for overburden and muskeg removal work under our new and existing mine support services agreements. Overburden removal is also targeted to resume at Canadian Natural's Horizon Mine in January, 2012, subject to completion of the current contract negotiations.

As you will recall, we formed a joint working group with Canadian Natural that was responsible for identifying indices that more closely reflect the inflationary conditions that have occurred in the market place. This group has submitted the market data and analysis to both companies and the management teams are working to resolve the issue and identify a mutually agreed contractual path forward in time for the targeted restart of the overburden operations in January 2012.

While volumes will be up, margins from this segment could be constrained due to continued equipment oversuppy in the market, a situation we believe will be overcome as the market demand rises over the next 6 to 12 months.

We'll also be undertaking more equipment maintenance than normal during the third quarter as we prepare for the anticipated surge in the fourth quarter.

Keep in mind that while recurring services demand is expected to be very high, we have experienced client-driven start-up delays and slower than expected ramp up on some of the oil sands construction projects. This has been caused by the client focus on substantially completed engineering prior to start up, as a recently adopted cost control measure.

The overall outlook for our Piling business remains very promising as we are seeing significant growth opportunities in the potash plant expansions in Saskatchewan, tailings management in the oil sands and the power transmission sector in Alberta.

In the near term, we continue to have a diverse range of projects in our backlog to keep us busy, including additional work at Mosaic's K3 Potash mine, a booster pump house for Shell in the oil sands and foundation work for Enbridge at their Tank Farm Expansion in Edmonton. While a solid backlog of work remains to be executed, the pace of activity is expected to normalize and as a result, margin performance is expected to come back down from the 28% achieved in the second quarter to the 18-20% margins we have seen in prior periods.

Piling activity typically slows down somewhat during the fourth quarter due to winter weather conditions but we expect to see the pace pick up again next year as the division is currently bidding on a wide range of new projects for startup at that time.

Our Pipeline business, meanwhile, is continuing to execute well on the two new large-diameter pipe projects. The timeline on one of these projects has been extended into next spring due to a client driven start-up delay, which is going to increase weather risk and we're working with our customer to address this through the change order process.

From an industry perspective, we have seen a marked improvement in the fundamentals of this business over the last six to nine months as construction demand has increased significantly and smaller operators have exited the market. This has led to both better pricing and a more reasonable balance of risk between the contractor and the owner. We believe this business climate will continue in the foreseeable future as bidding activity in this segment continues to be strong, including several new opportunities for the upcoming winter season.

Overall, we anticipate continued growth across our business through the balance of fiscal 2012 and based on current bidding activity, we would expect to see that carry through to next year.

With that, I'll now turn the call back to the operator.

Operator:

Thank you.

To ask a question, please press *1 on your touch tone phone. If you wish to withdraw your question from the queue, you can press *2. To allow others the opportunity to ask their question, please limit your enquiry to one question and one follow-up question. If you have further questions, please press *1 to return to the queue. If you have any questions please press *1 now.

Our first question is from Stephen Volkmann of Jeffries & Company. Caller, please proceed with your question.

Stephen Volkmann – Jefferies & Company

<Q>: Thanks, hi, good morning.

<A>: David Blackley: Good morning.

<Q>: I am wondering, you talked a little bit about sort of the competitive dynamics improving but we also seem to have some overcapacity I guess in equipment up there still for the next few months or couple of quarters. I am wondering if you just have any sort of further information about maybe what utilization levels are, if you think any of the competitors are adding significantly to their fleets or how we should look at that?

<A>: Rod Ruston: Yes, certainly but I think we should all recognize this as this the first conference we have had in the last two years where Matt Duncan from Stephens hasn't asked the first question so congratulations Stephen on getting in first.

<Q>: Thank you. I was up at 7 am for this.

<A>: Rod Ruston: In answer to your question, you will remember last year that Aecon purchased the Cow Harbor fleet. They have spent a fair bit of time doing maintenance on that fleet and we understand most of the work they were wanting to get done has now been done. So they have got a maintained fleet ready to go but as far as we are aware, they don't have a lot of work and we see that fleet as an overhang in the market. We don't see our competitors or ourselves actually, adding significantly to our existing fleets at the present time but the overhang is coming from that fleet that is still out there.

<Q>: Okay, great and so, second question is just on the Canadian Natural issue. Are there any signposts in terms of timing that we should be watching for? Are there deadlines or should we expecting any announcements in the next month or so?

<A>: Rod Ruston: Well we've been given a note of, back when we were shut down on the site, the letter indicating the requirement to shut down included in it a sentence that said that they expect to restart and the shut down would be until the 2nd of January 2012. That's what's been our milestone date. We don't know how well the Canadian Natural plant is going. We haven't heard that it is going badly but we don't know how far they have ramped it up so we're not sure what their demand for oil sands is at the present time and we also don't know how much stock of overburden removeal they had as far as their overall mine plan goes when they shut us down. So our target has been and we have worked with Canadian Natural on this to have the issue resolved so that we can get on site and get prepared for a restart on the 2nd of January but if Canadian Natural want to delay that then we are fine with that too. So the 2nd of January is the target date but if it goes through to the 2nd of February, that's fine too we don't care. We are not operating our equipment on the site. We have got plenty of work on other sites and the negotiations are proceeding.

<Q>: Great, and just to be clear, just the process of the negotiations, they will just sort of reach a conclusion whenever that happens rather than at some sort of deadline on the calendar.

<A>: Rod Ruston: That's correct. We don't gain any benefit whatsoever by having to achieve an absolute specific target date and settling for less than what we want to settle for. So we are quite open to Canadian Natural's timing.

<Q>: Thank you very much.

<A>: Rod Ruston: It doesn't worry us.

Operator:

Our next question comes from Ben Cherniavsky of Raymond James. Caller, please proceed with your question.

Ben Cherniavsky – Raymond James

<Q>: Good morning guys.

<A>: Rod Ruston: Good day Ben.

<A>: David Blackley: Hi Ben.

<Q>: I'm sorry if I missed it in the notes or your discussion but did you quantify or can you quantify how much of the work in the quarter was tailings related?

<A>: Rod Ruston: No. We didn't and the answer is no. The reason is that for example, we have said that there is a large increase in the volume of muskeg that's coming and that we have been doing. So for example, we know that the muskeg removal that we did in the summer period for Shell was tailings related but it was done not by a tailings group, it was done by a Heavy Construction group but it was certainly tailings related. We know that the solution that seems to be the general solution that's being developed at the present time is that what the client will do is they will clear extra muskeg each winter and to put it very simply they will create a dam for tailings on top of their overburden. They will then use that shallow dam to dry the tailings and then in a year's time, when they go through that area to do overburden removal, they will take that tailings dam with them and churn the tailings into the overburden so that is then deposited correctly. Now that work would be done by our heavy construction group, but you could argue that it is tailings related. So there's quite substantial additional volumes of muskeg at the present time and in the future overburden that are going to be tailings related, directive 74 driven but performed by our Heavy Construction and Mining group. On the other side, there's the technology side and we have, in this last quarter, done a lot of work for each of the customers on the technology of recovering tailings from the existing tailings dams and drying those tailings. So for Shell for example, we introduced the mud master which was a trial piece of equipment that has the ability to dry the tailings to the standard required by directive 74. At Suncor, we were doing some work on their dam putting in some pumps, and we introduced the skimmers to take the bitumen off the top of the water there. We ran a couple of skimmers for the entire season as a test program and we expect we're going to get an order for a significant number of skimmers to be put at Suncor next year. And at Syncrude we put our dredge in the water and did some work supplying finds to a test program that they've got for centrifugal extraction of fine tails. So, it's hard to say, because it's literally a truck was doing some work and it was moving muskeg. Was that muskeg that was required for overburden removal or was it muskeg that was required for tailings? So we can't, we haven't really split out what was directive 74 related.

<Q>: Okay. Thanks that's great color Rod. As a follow-up question, I wanted to ask you, well you know better than anyone that you had supply chain issues with the Caterpillar dealer there. Did that affect your business at all in the quarter and have you seen any improvement in the flow of parts in the last few weeks?

<A>: Rod Ruston: Yes it is affecting our business. Availability of parts has been difficult and the time taken for overhaul of equipment has been extended in some places quite substantially and in fact, there's two parts to that issue, one the overhaul has been extended but the second part is, there's an uncertainty in the actual timing of the overhaul. It is difficult for Finning to be able to actually say yes, your truck will be finished on X date. That is part of the reason for the increased maintenance spend that we see in the forthcoming quarter. We are putting our overhaul trucks out to other organizations where we can. Are we seeing it improve? Slowly, yes, we are keeping in touch with the Finning management but what we've recently said to the Finning management is we are coming up to our winter period which is our biggest truck operation period and we need some real improvements fast for the supply of parts and the supply of people. So we do see it impacting us for sure.

<Q>: Okay, thanks very much guys.

Operator:

Our next question comes from Matt Duncan of Stephens Inc. Caller, please proceed with your question.

Matt Duncan – Stephens Inc.

<Q>: Good morning guys, congrats on a great quarter.

<A>: Rod Ruston: Thanks Matt.

<A>: David Blackley: Thanks Matt.

<Q>: Well it was a great run up front Rod but unfortunately it had to come to an end sometime, huh? The first question I've got, look, I know you guys don't give guidance and I don't want to ask you to get into the guidance game but you've given us a lot of commentary around each of your three segments and sort of the outlook there, so maybe help us triangulate those a little bit in terms of what they might mean sequentially in the December quarter from September. It sounds like margins are probably pretty flatish. Revenues might be up a little bit but probably not a lot so net-net, are you expecting your earnings performance in the December quarter to approximate what you did in the September quarter?

<A>: Rod Ruston: Yes, very similar Matt and you were right in each of those margins, where they are, a little bit up. Revenues a little bit up. What we are seeing in the business as I said, on the call is that our clients are being very circumspect on getting things started. They are not rushing. They are taking their time. I was at a function the other day with Murray Edwards and Murray was doing a talk and in that talk, a question was asked at the end of it as to whether stage 2 of the CNRL project would go ahead given the world economy, given views on long term oil prices etc. and Murray's answer was yes, definitely, they are going to go ahead but the second part of his answer was that what you're going to see from CNRL and he expects from all other producers is that there won't be any more announcements of $10 or $12 billion projects. That everyone will now announce their projects. It will be a $1 billion project which will be part of the $10 or $12 billion project. It will be announced as a $1 billion first stage or whatever and each stage will be let out to tender and started and be self-contained so that at the end of that stage they'll be able to say, no, costs are running away from us. We are not happy with the direction of things, we're going to stop at this point and we won't do the next piece of this expansion until some later date. So it will be bite-sized chunks rather than mega projects and mega announcements. Now the impact of that for us is that the clients are saying to us, yes, we've awarded you the project and we want you to start on the 1st of November and then the 1st of November comes around and they are not concerned about saying oh look, we've put the start date back until the 1st of December because we haven't got our engineering right and that sort of thing. That's what we mean when we say client initiated delays in our work. It is causing us some impact because we gear up and get ready for the 1st of November and then things are put off,

so we lose a bit of productivity from some of our equipment and that's where that impact is coming.

<Q>: So Rod, are you guys trying to put anything in your contracts that you're winning to account for these start up delays so that they don't impact your earnings power?

<A>: Rod Ruston: As far as possible we are and in some places we can be successful. In other places, the size of the contract is such, or the value of getting that contract is such that you'd say to yourself, look if we're going to have a months' delay then we're going to have to wear that months' delay. So it's a bit horses for courses Matt but it depends on the size of the contract and the opportunity.

<Q>: Sure, and then there's a few large construction projects out there. I know you've talked about the initial contracts, that these are coming out smaller but you know, I guess Total Joslyn and Suncor Fort Hills are both expected to go forward, what update can you give us on those and sort of where you stand with getting work at those two sites?

<A>: Rod Ruston: Total Joslyn and Suncor Fort Hills are expected to go forward.

<Q>: Okay and you're clearly bidding on those but nothing yet?

<A>: Rod Ruston: That's right. Well the Fort Hills hasn't come out as a bid. Total has come out as a bid and we've been doing clarifications and that sort of stuff which they do with all the bidders and go through, you know, what do you mean by this and what do you mean by that. But we still expect that some work will be done on the initial work for Total in this winter period coming up and so we would expect that Total will do an award sometime in the next month or so I would say.

<Q>: Okay, that's helpful. And then last thing I've got is just to make sure we understand a normalized level for piling correctly. With Cyntech in there now, sort of normalized revenue levels at piling sort of around a $40 million number and then I guess the margin for that segment is probably 20% plus or minus?

<A>: Rod Ruston: Yeah, that's about right. Basically, the reason for the 27% was significant cost savings and actually productivity improvement in the business over the last three months and the reason that came about was because we had so much work in that we had a large second quarter anyhow but then the clients that missed out on getting their work done in the first quarter wanted theirs done in the second quarter as well. So basically in your normal piling business you'll do a piece of work, and then at the end of that piece of work you'll stand down your machine and because your next piece of work probably won't start for two or three weeks at a different location and so you'll lose that two or three weeks of equipment utilization. Basically, what we had in the second quarter was the work demand was so high that we didn't have any down-time on our equipment. It moved from one job to the next and as fast as we could move it, it was operating again. Now that sort of pressure of operation will go away and that's what will pull the margins back a bit.

<Q>: Okay, thanks for the answers, appreciate it. Great quarter.

Operator:

Our next question comes from Patrick Uotila of Sterne Agee. Caller, please proceed with your question. Patrick, your line is live.

Patrick Uotila – Sterne Agee

<Q>: Morning guys, can you hear me?

<A>: Rod Ruston: Yep.

<A>: David Blackley: Yeah.

<Q>: Yeah, a lot of my questions have been asked so I guess I just have, maybe if you'd give us a little bit more detail about the fact that you're seeing capacity but at the same time, some of the price inflation is starting to kick in, maybe the magnitude of that impact and how much of that is in labor and you know, as far as comparing it to the last cycle going in to 2012, how much of that do you expect tobe able to pass on to the customers?

<A>: Rod Ruston: We're actually not seeing big price inflation at the present time and in fact that's why the customers are being so circumspect about making sure that they don't push schedule over cost. So if they find that their prices are being pushed up by competing projects then one of them will back off the project a little bit is the way we are seeing it. The only place where we are seeing improved prices is in the, pipeline division and basically it's an interesting one because it's a place where environmentalist activity I believe has had a fairly significant effect. If you look back five or ten years ago, one of the large pipeline companies spilled a few gallons of oil in the local river, the locals would have been angry and it probably would have gotten on the third page of the district paper. Nowadays if that same thing happens, it resounds around the world and the result of that is all of the mainline pipeline operators know that they are under the microscope at the present time and what that means is that their ability to use the smaller, less technically competent pipeline installers has sort of disappeared. They tend to be wanting to look for the pipeline contract if its got the quality control systems, it has got the processes for installation and welding and welding control and the smaller ones have gone out of play. That has reduced the size of the competitor bench at the same time as the size of the market has been increasing so that's the thing that has been driving prices for us there. We have not seen costs rise substantially there so that's why you can see slightly better margins in that business.

<Q>: Okay, that's helpful and for a follow-up, on the Syncrude mine relocations, could you just talk a little bit more about how many more contracts do you expect to be there and maybe how they will compare in size to the last contract?

<A>: Joe Lambert: This is Joe, Pat. This one is the front end of the Mildred Lake mine train relocation so we expect this to be the primary job for us on that site but there is

probably going to be several smaller piling and small earthworks related underground utilities kind of stuff related with the Mildred Lake one over the next 12 to 18 months. The big chunk for us will come again being a similar one to what we're doing right now at their Aurora mine site. We expect will probably come out for tender early in the New Year for commencement probably in Spring or early summer next. Be of a similar size and essentially be a mirror image, and some of the things are different but a mirror image of what is going on in Mildred Lake will occur at Aurora. It will just occur about a year or so later. And again this kind of fits in with what Rod was saying about staggering work to make sure that they don't peak all of their jobs and all their workforces so they can manage costs better.

<Q>: Okay great. Thanks guys.

Operator:

Our next question comes from Bert Powell of BMO Capital Markets. Caller, please proceed with your question.

Bert Powell - BMO

<Q>: Thanks. Rod, you indicated that there seems to be some timing shift around in the pipeline side of things. Can you give us a sense of what that means for this year and next?

<A>: Rod Ruston: Sorry, some timing shift. I am not sure what you mean?

<Q>: I thought in your prepared remarks you had said there was, in terms of the projects you have, on the pipeline side of things that things had shifted around from a timing perspective perhaps?

<A>: David Blackley: Bert, really what we were talking about there is we expected to have more revenue from pipeline in the last quarter but just with the delays we have seen that revenue being pushed into the third quarter and in the case of the one job that Rod mentioned, because of those delays, we know that we'll finish that work up over the winter period. So spring, the final sort of clean up reclamation work can only be done in the spring now instead of the original plan that it would have been done around about this time period.

<Q>: Okay. And in terms of…

<A>: Rod Ruston: Sorry, I'm a bit slower at this time of the morning than David.

<Q>: Have another cup of coffee Rod.

<A>: David Blackley: Yeah, he got a decaf this morning by mistake.

<A>: Rod Ruston: I can't understand how an engineer can be slower than an accountant, I don't think that's possible.

<Q>: That's just in terms of the …

<A>: Rod Ruston: The client driven delay in that one I believe was an approval that they still required that wasn't in place when the original start date was.

<Q>: Okay, in terms of the margins, I mean this is the first time in a while that we have seen some decent profit out of the pipeline business and you did mention they were going to get into some weather kind of things. Is 8% the right way to think about that business now based on how you've re-cut the contracts or whatever other processes you've put in the place to mitigate the risk or is this a particularly good quarter just because of good weather or not?

<A>: Rod Ruston: No, this is where you should be looking in the 8 or 10% area now. We've made some significant changes to our pipeline theme. We have also been making significant changes to the contracts, so you remember Matt Duncan asked a question earlier, have we been making changes to contracts to better reflect the cost of the client-driven delays and that sort of stuff. Our contracts in the pipeline division, we have had a lot of success in changing some of the risk profile within the contracts that results in if something happens, we're not the ones that get hit so hard. So more around the 8 or 10% is what we see as an ongoing number here.

<Q>: Okay. And then just back to the maintenance bump for Q3 in terms of your parts availability. You know, have you made a decision or are you kind of looking to Finning to say look, if you can't hit what we need we're going to go elsewhere or have you already made the decision to go elsewhere and what would elsewhere really mean?

<A>: Rod Ruston: Yeah, we've been going elsewhere already for the last four or five months and elsewhere is to, basically to Saskatchewan where Finning doesn't cover but surprise, surprise, every other man and his dog went the same way. So now that particular supplier is under stress as well but they're not under stress because of an ARP system breakdown, they're under stress just from pure load.

<Q>: Right, okay. So how frequent are you reaching out to make sure that you've got a good line of sight that you can get the maintenance done in Q3 that you need to get done. Like are you currently right up to date in terms of where things stand or is that something you're kind of, every couple of weeks?

<A>: Rod Ruston: Yeah we talked to Finning day before yesterday and had a long discussion with where they're up to. I met the new CEO and made sure he was aware of where our key points were. That discussion went well in the fact that he understands where our key points are. I don't think he is quite sure what they can do about it other than continue on the path that they're at, at the present time. He hasn't been there very long. But they are obviously extremely concerned about where they are at and they are doing their level best to get their business up and running and supplying as it should be.

<Q>: Okay, so this sounds like it's a backlog issue on their part just to churn through what's pent up?

<A>: Rod Ruston: It's a combination of identifying backlog orders and then being able to actually fill those orders from their parts warehouse.

<Q>: Okay. Thanks a lot.

Operator:

Our next question comes from Carl Giesler of Harbinger Capital Markets. Caller, please proceed with your question.

Carl Giesler – Harbinger Capital Partners

<Q>: Good morning guys, congratulations. Just a question on your operating lease expense…a good portion of your asset base is under five-year lease but its ten-year equipment or maybe ten years plus. How should we think about that expense over the next couple of years and how might that flow through to EBITDA?

<A>: David Blackley: Certainly Carl if you look at our lease commitments, they're pretty substantial today. If we don't take on any new leasing or roll over any of those leases when they come due, I think you can look at the quarterly expense dropping in sort of the $4 to $5 million a quarter range. So we could see a pretty good fall off in that expense in the coming 12 to 18 months. Certainly, I think this year is really the peak year for us, where we're going to end up. I think the way the numbers are tracking right now it's sort of in that $75 to $80 million range.

<Q>: In going forward, you would expect at least the scale of your leasing program to at least come down, probably not go away but come down a little bit?

<A>: David Blackley: Yeah, that's certainly one of the things that we're looking at here as we start to get back into more positive cash flow.

<Q>: Okay, and just a quick follow-up. How does lease expense impact your unallocated equipment expense? I mean obviously depreciation moves with activity but that lease expense is pretty constant so if your utilization, can you just talk about that and what it might look like over the next couple of quarters?

<A>: David Blackley: Yeah, so certainly it is much more of a fixed expense so if we have that equipment under-utilized, that would essentially add to the under recovery of our overall equipment costs but as the utilization ramps up, we clearly get more recovery back. So you should really think of it as a fixed expense, unlike our depreciation which is determined based on the usage of equipment, so if we don't use it, you don't see the depreciation expense.

<Q>: Okay so if I look at the next December quarter, would the unallocated equipment expense be somewhat similar to this quarter or how would that move?

<A>: David Blackley: Yeah, similar to this last quarter. It might be a little bit more under recovered, just because of the incremental expenses we're looking at.

<Q>: Okay, thank you.

Operator:

Our next question is from Jeff Fetterly of CIBC World Markets. Caller, please proceed with your question.

Jeff Fetterly – CIBC World Markets

<Q>: Morning guys. I guess along the same vein as that last question. Can you provide a little bit more color on the lease expense benefit that was in the quarter and do I interpret those comments earlier as lease expense for this year, fiscal year should be in the $75 to $80 million range?

<A>: David Blackley: Yes, so in terms of the big credit that you saw there in the quarter, it really came from two types of equipment. The one type of equipment was CNRL related equipment that was about a $4 million credit. It was related to the expense associated with over hours. If you used the leased equipment for more than the minimum hours specified per the lease agreement, there's typically an incremental charge that we have to accrue so that would move up and down depending on where the hours are at. But we saw a big reversal here in the quarter related to CNRL equipment. However that $4 million didn't flow through to the bottom line, because if you look at how that job is accounted for, it would essentially just be a flow through, it is all built into the forecast cost to complete, which you layer on top of that the fact that we're tracking that job at a zero margin so any increases or decreases in cost would essentially just flow back into a change in the unbilled revenue number. So if you were to compare the unbilled revenue for CNRL at the end of the first quarter to this quarter you would find that it has actually dropped by about $4 million. It was really just a flow through. So that was the one component. The other component, about $2 million again was related to a reversal of over hours. We have been looking at some of our lease agreements and we identified a couple of lease agreements there where we had minimum hours that were just way too long relative to how that equipment has been operating. So we went back and renegotiated the terms on our lease and were able to get some reversal in on the over hours. So that $2 million, that actually flowed through to our bottom line.

<Q>: So from a lease standpoint, we expect to see a pick up in the remaining two quarters of the year.

<A>: David Blackley: Correct.

<Q>: Capex wise, where do you expect to be this year?

<A>: David Blackley: We're currently looking at our Capex program here to be somewhere in the $50 million range. We're clearly monitoring that.

<A>: Rod Ruston: So we haven't seen any need, given the oversupply of equipment in the market, we've been very frugal on what equipment we're adding to because we don't see a lot of point, even though if we got more equipment, we're very confident we could grab more work, it would just maintain the pressure on margins when there's plenty of equipment out there at the moment.

<Q>: Is it safe to say that within the context of your current fleet if you win Joslyn for the winter for instance, that you have capacity to handle that?

<A>: Joe Lambert: Yes, absolutely.

<Q>: Okay and lastly pipeline. Even with the delay or deferral of some of that work into the spring, are you still expecting overall pipeline revenue in that $80 to $90 million range this year and what does the backlog opportunity or bidding process look like for next year?

<A>: Rod Ruston: Yes is the answer to the first part of the question and the second part is that the bidding process for next year in the pipeline group is strong. So we're already bidding work for next year in that area.

<Q>: Bidding to grow that business or bidding at a similar pace to this year?

<A>: Rod Ruston: We won't substantially grow it inside, we're sort of a two-spread company and what we have done is we have picked up some work in the maintenance pipelines so revenue growth that will occur will be because we have got some recurring revenue type work in that business now of pipeline maintenance for Enbridge and Trans Canada and that will keep us going through the lower construction periods and enables us to keep our workforce and our key management and supervisory workforce which is very important to us for growing that business over the long term, getting more permanent employees rather than the fairly transient employee group that we've had in the past.

<Q>: Thanks for the color.

Operator:

We have a question from Greg McLeish, of GMP Securities. Caller, please proceed with your question.

Greg McLeish - GMP

<Q>: Hey guys, just wanted to drill down again on that lease expense question. What I was wondering is, you know, you said that you were going to maybe average the $75 to $80 million but you know, if you take a look at that, does that mean that it's more like a $20 million per quarter on an operating lease expense for the balance of the year or is it going to be higher than that? I mean I'm just wondering if that $6 million is included in that, do you have to back that out and then normalize?

<A>: David Blackley: Again if that CNRL equipment ramps up Greg and we start to see the increase in the over hours, some of that $4 million would reverse back but it would be exactly the same flow through in terms of the accountings today, so you wouldn't see that. If we were to reverse all of that because the hours had gone up, it would hit the bottom line, it would essentially just be a flow back through in the unbilled because it really becomes a timing issue.

<Q>: If I'm trying to think of a number, is it $80 million minus the $6 million to come out with it normalized for the year?

<A>: David Blackley: Yes

<Q>: Okay and just on your working capital, just a couple of things. Your inventory seemed to have really popped up in the quarter. Is there anything in there, you know, what are you ramping up there for?

<A>: David Blackley: We've heard rumblings that there's a potential tire shortage coming. So we've been building up our tire inventory just to be ready in case.

<Q>: Okay and how much of that working capital did you think will reverse into the, you know, into Q4 and even into Q1? I mean how much of the line are you going to have to tap? Are you going to have tap more of the line or are you going to have excess availability by the end of the year?

<A>: David Blackley: In the short term I think we'll have to draw down more into the line. We'll still have adequate capacity. In terms of how some of that working capital flows back into our cash, timing is a little bit difficult for us to predict because a lot of it will depend on how quickly the winter work ramps down so for example, if we find that we get an early spring melt and we're essentially shut down by the middle of March, we would start to see more of that cash flow into Q4 but by the other side, if the work goes into the first part of April, I wouldn't expect to see a big movement in working capital, the cash really starts to come out in Q1.

<Q>: Okay, so it all depends on weather then.

<A>: David Blackley: Yeah.

<Q>: Okay great quarter, thanks guys.

<A>: David Blackley: Okay, thank you.

Operator:

Our next question is from Eric Pachman of Korsant Partners. Caller, please proceed with your question.

Eric Pachman – Korsant Partners

<Q>: Hey guys, thanks for taking my question. Joe, I guess a question for you. How well, I generally understand there is over capacity, you're clear about that. But how well do you think, if you're looking just kind of in Q4, the industry is prepared to handle the level of muskeg removal demand that you're seeing? I guess specifically on the equipment that you'd be using to execute that work?

<A>: Joe Lambert: From what we've seen we believe it will, be pretty much fully utilized in that size of fleet across the winter across the business. So anybody with that size equipment to do muskeg will probably be busy and it will probably take all of that to get those quantities done. But we do believe, you know, there is some flexibility in the timing of one client to do those things that just increases costs or potentially increases costs if you run the risk of going too late in the year and getting spring breakup.

<Q>: Is there still available rental equipment out there if clients are willing to you know, obviously pay that higher price, assuming they're going to be able to push those costs through or is the market just potentially with all the demand, could it get potentially capped-out on equipment?

<A>: Joe Lambert: There's usually some rental capacity. I don't know exactly what the rental yards look like right now but you know, if we needed to get a few trucks tomorrow and we could get the additional costs of a rental paid for, I believe they would be there.

<Q>: How are those conversations with customers going right now? Are they looking to do that or not willing to pull the trigger yet?

<A>: Joe Lambert: I think it's still, they still haven't committed on volumes and I don't know if we have a real clear picture of where that capacity is right now. I don't think we'll really know that until kind of mid December until we're about ready to go to see who has awarded what work and who is holding back.

<Q>: Okay, and what do I think about, as far as, if we get like an early freeze I mean are they going to start the work asap or is this generally just going to start in January or December?

<A>: Joe Lambert: It predominantly starts in January. We usually have a small amount that we can get to in December. If we get a good freeze down we could start doing some prep and getting access to areas and freezing down areas in December. A lot of times it is dictated by the client and their budget. So if their muskeg budget is available in January, then we start in January. We do try and get as much of it prepped in December as we can or we have access to because it just makes it easier to utilize more of the hard freeze in January for doing he actual extraction and not doing access development and things like that.

<Q>: Okay, thanks so much.

NORTH AMERICAN ENERGY PARTNERS INC.

Operator:

Our next question comes from Frank Wooten of Point Blank Capital. Caller, please proceed with your question.

Frank Wooten – Point Blank

<Q>: Hey guys, congratulations on the great quarter.

<A>: Rod Ruston: Thank you.

<Q>: I had a quick question with regards to the $25 million extension to your credit agreement. In your notes to your 6K it said that that's automatically going to be paid out of any settlement with regards to the CNRL contract. Is there something that they had more details than we are being given on that or can you just walk through that with me?

<A>: David Blackley: No, there isn't any more detail than we have communicated here. The reason why we put that in is clearly if we get a big settlement here from CNRL, there is no need for us to go pan all the standby fees associated with that incremental $25 million so the first thing we would do is drop that down. If we don't need it, why have it.

<Q>: Got it. And that's only on the $25 million, it's not on the previous credit agreement.

<A>: David Blackley: Correct.

<Q>: Okay, thanks guys.

<A>: David Blackley: Yeah.

Operator:

It appears there are no further questions at this time. I would now like to turn the floor back to management for closing comments.

Rod Ruston:

Thank you very much everybody. We'll be out on the road going through both the west coast and the east coast starting next week so hopefully we'll catch up with some of you, if any of you want us to drop in and see you, please make sure you contact our Investor Relations Director Kevin Rowand. Thanks for joining us on the call this morning.

Operator:

This concludes the North American Energy Partners Conference Call. You may now disconnect your lines at this time and have a wonderful day.